United States Court of Appeals

for the Second Circuit

BRIEF FOR APPELLANT

No. 76-7378

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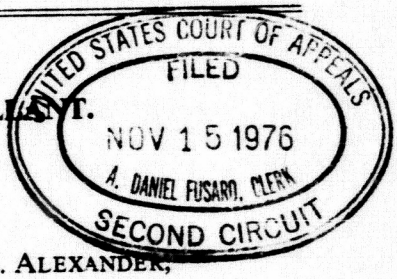
P/s

In the

United States Court of Appeals

For the Second Circuit

KASTAR, INC., *Plaintiff-Appellee,* *vs.* K MART ENTERPRISES, INC., *Defendant-Appellant.*	Appeal from the United States District Court for the Eastern District of New York. Honorable **Orrin G. Judd,** Judge Presiding.



BRIEF FOR APPELLANT.

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KASTAR, INC., *Plaintiff-Appellee,* vs. K MART ENTERPRISES, INC., *Defendant-Appellant.*	Appeal from the United States District Court for the Eastern District of New York. — Honorable Orrin G. Judd, Judge Presiding.

BRIEF FOR APPELLANT.

I.

PRELIMINARY STATEMENT.

This is an Appeal by defendant, K Mart Enterprises, Inc., from the Memorandum and Order of the late Judge Orrin G. Judd dated May 29, 1976 (App. p. 98).[1] The Memorandum and Order is reported at ..... F. Supp. ....., 190 U. S. P. Q. 550 (E. D. N. Y., 1976).

1. "App. p. ....." indicates reference to the Appendix which is being filed herewith.

Judge Judd's decision was made into a final judgment by Judge Dooling on August 2, 1976 (App. p. 128).[2]

This Court has jurisdiction by virtue of 28 U. S. C. § 1291.

II.

ISSUES PRESENTED FOR REVIEW.

1. Can Summary Judgment be granted to foreclose discovery where there is a factual dispute as to whether a "negligent" attorney and a "negligent" client acted willfully, in bad faith, in conspiracy, and to cover up a violation of 35 U. S. C. § 102?

2. Did the District err in finding that:

   a. Defendant's discovery had been substantial, and

   b. Plaintiff's attorney moved to terminate the patent action as soon as the invalidity became manifest.

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2. Judge Dooling ruled that the May 29, 1976 Memorandum and Order was not a final judgment as required by Rule 58, but that if it was, defendant's appeal was still timely due to excusable neglect.

III.

STATEMENT OF THE CASE.

A. The Nature of the Case.

This is a patent infringement case brought by Kastar Inc. (hereinafter "Kastar") against K Mart Enterprises, Inc. (hereinafter "K Mart") alleging infringement of United States Letters Patent No. 3,733,627 for an "Electrician's Combination Tool" (hereinafter the "wirestripper"). Count II of Kastar's Complaint charged K Mart with unfair competition.

B. The Course of Proceedings and Disposition in the Court Below.

The proceedings relevant to this Appeal are included in the following chronology:

August 30, 1974—Kastar filed its Complaint (App. p. 7).

November, 1974—K Mart filed an Answer and Counterclaim alleging that the patent was invalid as pertaining to an invention which had been sold or offered for sale more than one year prior to the filing of the application and seeking attorney's fees under 35 U. S. C. § 285 (App. p. 20).

June 20, 1975—Judge Judd ordered Kastar to produce documents pertaining to offers for sale or sales and to submit to depositions (App. p. 24).

June 27, 1975—K Mart took the deposition of the inventor for three hours and fifty-five minutes and the deposition of Kastar's office manager for thirty-five minutes.

January, 1976—K Mart noticed the deposition of Kastar's President, the inventor, Kastar's Vice-President of Sales, Kastar's Vice-President and an employee in Kastar's Purchasing Department (App. p. 27).

February 9, 1976—Kastar dedicated U. S. Patent 3,733,627 to the public, after receiving notice of the proposed depositions (App. p. 42).

February 10, 1976—Kastar moved for voluntary dismissal of Count I, dismissal of K Mart's Counterclaim (including the claim for attorney's fees) and to quash K Mart's notices of deposition (App. p. 30).

February 20, 1976—An oral argument was held before Judge Judd in regard to Kastar's motions.

May 29, 1976—A Memorandum and Order was prepared by Judge Judd, in which he granted the Motion for Voluntary Dismissal of Count I, granted summary judgment against Defendant's Counterclaim[3] and stated that . . . "Count II of the Complaint be dismissed as of condition of this order . . ." (App. p. 114).

August 16, 1976—K Mart filed its Notice of Appeal from Judge Judd's Memorandum and Order which was made into a final judgment by Judge Dooling on August 2, 1976 (App. p. 180).[4]

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3. Although the Court granted what was termed a "motion to dismiss defendant's counterclaim as moot" (App. p. 98), Kastar's dedication of the patent in suit to the public did not render the entire 35 U. S. C. § 285 counterclaim moot. Further, since the Court's Memorandum discusses the attorney's fees issue at great length, this could not have been a dismissal for failure to state a claim under F. R. C. P. 12(b)(6). What Judge Judd clearly did was to frame and grant a motion for summary judgment against K Mart's counterclaim.

4. Since the filing of the instant appeal, Kastar on September 2, 1976 filed a Motion with this Court seeking to dismiss this appeal (App. p. 182). Such motion was denied on September 14, 1976 (App. p. 185).

IV.

STATEMENT OF FACTS RELEVANT TO THE ISSUES PRESENTED FOR REVIEW.

A. Background of the Controversy.

Kastar, both prior to and after the issuance of its patent, sold wirestrippers to K Mart (App. p. 9). K Mart subsequently stopped purchasing such product from Kastar and found an alternative source of supply (App. p. 10). Kastar then filed its Complaint.

B. The Extent of Discovery.

Less than one full day of depositions was ever taken by K Mart.[5]

At the time Kastar moved for voluntary dismissal of its patent infringement count, K Mart had outstanding notices of deposition naming five additional deponents (App. p. 27).

C. The Facts That Were Ascertained by K Mart.

The few facts ascertained by K Mart in less than five hours of depositions convinced Judge Judd that the patent application which matured into the patent in suit was filed several days or weeks later than it should have been (App. pp. 102 and 112).[6] He also found that both Kastar and its attorneys had been negligent (App. pp. 112-113).

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5. Even the two short depositions had to be conducted under a Court Order (App. p. 24), since Kastar refused to produce the deponents for more than six months.

6. Since the patent in suit was dedicated to the public on February 9, 1976 (App. p. 42), Judge Judd considered Kastar's violation of 35 U. S. C. § 102 in the context of K Mart's claim for attorney's fees and not patent invalidity.

Those facts are as follows:

1. Although Kastar's attorneys filed the patent application on May 20, 1971, they had received three sheets of drawings for the wirestripper from Kastar more *than two years prior* to that date (Defendant's Deposition Exhibit 24L; App. p. 67).
2. Kastar actually sold its 511A wirestripper[7] more than one year prior to the patent application's filing date (Defendant's Deposition Exhibits 22A, 22B, 22C; App. pp. 53-55).
3. Kastar solicited and took orders for its 511A wirestripper more than one year prior to the patent application's filing date (Defendant's Deposition Exhibits 22E, 27; App. pp. 57 and 60); and
4. Kastar advertised its 511A wirestrippers more than one year prior to the patent application's filing date (App. pp. 48-51 and 52).

D. The Findings of Judge Judd.

After a non-evidentiary hearing on February 20, 1976, Judge Judd granted summary judgment against K Mart's Counterclaim.

In reaching this conclusion, Judge Judd found that:

1. "A reasonably negligent inventor in 1971, when the patent application was filed, might have thought that the year in which to file the application ran from May 21, 1970, when the first wirestrippers were delivered." (App. p. 112).
2. "A reasonably negligent patent attorney, who received the inventor's affidavit that on May 13 the invention had not been on sale for more than one year, might have believed that it was all right to proceed in routine fashion instead of sending the patent application to Washington immediately by messenger." (App. p. 112).

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7. The model designation "511A" was used by Kastar in connection with the combination wirestripper and crimper which is the subject of Patent No. 3,733,627.

3. "A reasonably negligent attorney, seeing a valid patent in his files, might well think that there was no obstacle to an infringement suit." (App. p. 113).[8]

The Court also found that "Plaintiff's attorney moved to terminate the patent action as soon as the invalidity became manifest" (App. p. 113), that "The course of conduct in preparing and filing the application does not indicate any awareness of the critical date . . ." (App. p. 112), and that "substantial discovery" had been taken by both sides (App. p. 99).

8. These "reasonably negligent patent attorneys" are the same lawyers who received three sheets of drawings for the wirestripper *two years before they filed the application which matured into the patent in suit.* (Defendant's Deposition Exhibit 24L; App. p. 67).

V.

ARGUMENT.

A. Introduction.

K Mart's position, stated simply, is that:

1. Judge Judd erred in foreclosing discovery by summarily dismissing K Mart's counterclaim when minimal discovery had proven at least negligence on the part of Kastar and its attorneys, and
2. The Court erred in finding that K Mart had conducted substantial discovery and that Kastar's patent action was terminated as soon as patent invalidity became manifest.

B. Summary Judgment Was Inappropriate and Erroneous as a Matter of Law.

Summary judgment is a drastic remedy. Since it denies a party a full hearing:

> ". . . a court must be *certain* that it is not depriving a party of the fundamental right to a trial." *Johnson Foils, Inc. v. Huyck Corp.*, 61 F. R. D. 405, 407 (N. D. N. Y. 1973).

It is submitted that such certainty could not have been generated by the limited facts before Judge Judd.[9]

Further, since K Mart's Counterclaim raised issues comprising Kastar's motives, intent and other matters depending upon the testimony and credibility of witnesses, Summary Judgment

9. Even the small number of facts and exhibits which K Mart had elicited (and which eventually precipitated the dedication of the patent in suit to the public) were never before Judge Judd in more than affidavit form. Judge Judd granted Summary Judgment on the oral arguments of counsel, without an evidentiary hearing.

was improper, *Skouras Theatres Corp.* v. *Radio-Keith-Orpheum Corp.*, 58 F. R. D. 357 (S. D. N. Y., 1973); *Murphy* v. *Bankers Commercial Corp.*, 111 F. Supp. 608 (S. D. N. Y., 1953).

The general rule in this and other Circuits, is that Summary Judgment can not be granted where there is a genuine issue of material fact, *Male* v. *Crossroads Associates*, 337 F. Supp. 1190 (S. D. N. Y., 1971), affirmed 469 F. 2d 616 (2nd Cir. 1972); *Empire Electronics Co.* v. *United States*, 311 F. 2d 175 (2nd Cir., 1962).

In patent cases, with their inherent complexity, the grant of Summary Judgment, although theoretically available, is rare, *Sealectro Corp.* v. *L. V. C. Industries, Inc.*, 271 F. Supp. 835 (E. D. N. Y., 1967); *Xerox Corp.* v. *Dennison Mfg. Co.*, 322 F. Supp. 963 (S. D. N. Y., 1971).

C. Genuine Issues of Material Fact Were Present in Abundance.

Although only two short depositions had been taken by K Mart, compounded acts of negligence on the part of Kastar and its attorneys had been shown.[10]

What remained to be determined by the discovery which Summary Judgment foreclosed[11] was whether:

1. the Oath of a "negligent inventor" was false and/or fraudulent;
2. "negligent" attorneys had conspired with their client to suppress and cover-up the violation of 35 U. S. C. § 102;

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10. The Court found Kastar's attorneys to have been "reasonably negligent" although they had received drawings for the wire-stripper more than two years before they filed the Kastar patent application (App. p. 67). Surely these lawyers should have been suspicious of the Oath contained in the inventor's affidavit.

11. Five notices of deposition by K Mart were outstanding when Judge Judd granted summary judgment (App. p. 27).

3. knowledge of the 35 U. S. C. § 102 violation preceded the commencement of this lawsuit, and

4. the dilatory litigation tactics of Kastar's "negligent attorneys" really comprised a cover-up and, therefore, constituted bad faith.

It is to be noted that these outstanding factual issues, comprising the motives and intent of Kastar and its attorneys, could only have been resolved and presented to the Court through live and recorded testimony. An opportunity for such a presentation was never afforded K Mart and Summary Judgment was granted as if these clear issues did not exist.

D. K Mart Need Prove Only Something in Excess of Simple Negligence Under § 285.

A review of Judge Judd's Memorandum and Order of May 29, 1976, makes it clear that the District Court was seeking acts of *commission* constituting the perpetration of a fraud (while precluding discovery and testimony).

The statutory provision for an award of attorney's fees in patent suits is 35 U. S. C. § 285:

> "The court in exceptional cases may award reasonable attorney fees to the prevailing party."

This Court, in adopting the view of the Ninth Circuit in *Monolith Portland Midwest Co.* v. *Kaiser Aluminum and Chemical Corp.*, 407 F. 2d 288 (9th Cir., 1969), has recently ruled that:

> "Fraud on the Patent Office would certainly be enough to make a case exceptional, '[b]ut *conduct short of fraud and in excess of simple negligence is also an adequate foundation for deciding that a patent action is exceptional*'." *Kahn* v. *Dynamics Corp. of America*, 508 F. 2d 939, 945 (2nd Cir., 1974), cert. denied 421 U. S. 930 (1975) (All emphasis added)

K Mart proved negligence in less than five hours of deposition examination. It was about to prove more than "simple negligence".[12]

> "The trial court's findings that plaintiff was dilatory, that he had mislead the Patent Office, and that he had failed or refused to meet the specific reasoning and arguments of DCA concerning the infringement issue were more than ample to support a finding of conduct 'in excess of simple negligence' and a determination of bad faith on the part of plaintiff in commencing and litigating this suit. We agree with the trial judge that such negligence and bad faith are sufficient to justify classifying the case as exceptional and awarding attorney's fees to the defendant." *Kahn* v. *Dynamics Corp. of America*, 508 F. 2d 939, 945 (2nd Cir. 1974), cert. denied 421 U. S. 930 (1975).

K Mart's additional discovery should not have been foreclosed by Summary Judgment.

E. The District Court, in an Obvious Hurry to Dispose of the Case, Erred Factually.

Since less than five hours of depositions could never constitute "substantial discovery" in a patent case, it is quite apparent that the District Court was not familiar with the facts.

Additionally, the error regarding the finding that "Plaintiff's attorney moved to terminate the patent action as soon as the invalidity became manifest" (App. p. 113) is equally clear.

It took seven months for Kastar to dedicate its patent to the public after invalidity was clearly shown. Even then, such dedication came in desperation to forestall K Mart's noticed depositions. Thus, it was not until K Mart's proposed discovery seemed

12. It is to be noted that, although the proofs of Kastar's 35 U. S. C. § 102 violation became manifest on June 27, 1975 (App. pp. 53-55), Kastar dedicated its patent to the public on February 9, 1976 (App. p. 42). K Mart noticed its depositions of five additional deponents in January, 1976 (App. p. 27). The events are obviously related.

certain to establish fraud, conspiracy and bad faith that Kastar reluctantly dedicated the patent to the public.

F. The Possible Imposition of Attorney's Fees Is the Only Protection Afforded to Target Defendants.

Both the District Court and Kastar have placed great reliance on this Court's decision in *Larchmont Engineering, Inc.* v. *Toggenburg Ski Center, Inc.*, 444 F. 2d 490 (2nd Cir., 1971). That case stands for the proposition that voluntary dismissal with prejudice should not be discouraged by the threat of attorney's fees. Although *Larchmont* is not applicable to the case at bar,[13] the underlying theory is worthy of discussion.

Voluntary dismissal with prejudice, in a typical litigation context, is of great utility. It clears court dockets and aids in the orderly administration of justice. It should not, however, prejudice a remaining party who has been substantially denied discovery but who has already proven the negligence of the dismissing party and its attorneys.

Large companies in general, and large retailers like K Mart especially, are constantly subjected to baseless and vexatious lawsuits. They are "target defendants".

Implementation of the *Larchmont* rule in cases like the one at bar, will open the floodgates for spurious and vexatious lawsuits against "target defendants" and others in this Circuit. Patent plaintiffs will be encouraged to commence suit, attempt a windfall settlement and voluntarily dismiss when their adversaries commence discovery and unearth their negligence and the invalidity of their patent. Such a situation will encourage baseless patent litigation.

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13. In *Larchmont*, "extensive pretrial discovery" was conducted, "prosecution of the action was delayed" and "an insufficient showing of bad faith" was made, 444 F. 2d at 491. Here, K Mart established negligence and a violation of 35 U. S. C. § 102 with minimal discovery.

K Mart had established, with minimal discovery, a violation of 35 U. S. C. § 102 and the negligence of Kastar and its attorneys and yet was denied normal discovery and an evidentiary hearing by the improper grant of Summary Judgment.

V.

CONCLUSION.

K Mart respectfully requests that this case be remanded for additional discovery and a full hearing on the issues raised by its Counterclaim.

Respectfully submitted,

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2 copies of Brief
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